No. 96-321

Supreme Court, U.S.
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In The
Supreme Court of the United States

October Term 1995

KAYSER-ROTH CORPORATION,
Petitioner,

v.

SARA LEE CORPORATION,
Respondent.

ON PETITION FOR WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FOURTH CIRCUIT

Reply Brief of Petitioner

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LIST OF PARENT COMPANIES AND NON-WHOLLY OWNED SUBSIDIARIES

Petitioner Kayser-Roth Corporation is owned by Synchro S.A. de C.V. Kayser-Roth Corporation has an interest in KR-AK Realty LLC. This information remains unchanged from the disclosure in Kayser-Roth Corporation's Petition for Writ Certiorari.

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ARGUMENT

I. The decision of the Fourth Circuit conflicts with the decisions of the Second and Third Circuits regarding the protections afforded generic terms in trademarks.

The Second Circuit in *American Cyanamid Corp. v. Connaught Labs., Inc.*, 800 F.2d 306 (2d Cir. 1986), held that the determination of the existence of likelihood of confusion between marks containing generic components cannot be based on confusion arising from the generic terms. *Id.* at 308. The Third Circuit reached a similar result in *Dranoff-Perlstein Ass'n v. Sklar*, 967 F.2d 852 (3d Cir. 1992). The decision of the Fourth Circuit in this case conflicts with these decisions and holds that once a likelihood of confusion has been found, an injunction will issue, even when the confusion is caused solely from use of a generic term.

In this case, the district court, sitting as the trier of fact, looked to the only common element in the trademarks at issue and made a factual finding "that the word 'leg' is generic with respect to pantyhose." App. A-118. In reaching its decision, the district court properly set forth the law regarding generic marks, *see id.* at A-116-17, and found that "the word 'leg' . . . [met] all of these criteria with respect to pantyhose." *Id.* at A-117. This analysis is in accordance with the decisions in *American Cyanamid* ("hib" generic for hemophilus vaccine) and *Sklar* ("INJURY" generic for personal injury attorneys).

Sara Lee does not dispute the soundness of the decisions in *American Cyanamid* and *Sklar*. Instead, Sara Lee contends that the Fourth Circuit "simply ruled that 'leg' as applied to pantyhose is not a generic term." Brief of Respondent, p. 2. Sara Lee's contention is without merit.

The Fourth Circuit did not reverse the district court's finding that the word "leg" is generic with respect to pantyhose. In fact, the Fourth Circuit did not address the issue of the generic nature of the term "leg" at all, focusing instead only on Sara Lee's mark L'eggs®:

> We note simply that *L'eggs*® does not denominate a type or genus of goods, nor does it name a distinctive characteristic of pantyhose in general. . . . A different case would be presented if the mark at issue were "Pantyhose" or "Stockings" (type or genus), or "Nylon" (characteristic).
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> * * *
>
> Of course, if *L'eggs*® were indeed a generic term, it could not be legally registered as a trademark.

App. A-18, n.12 (emphasis added).

The Fourth Circuit's singular focus on whether Sara Lee's L'eggs® mark was generic only highlights its error. The finding that the L'eggs® trademark is not generic does no more than provide trademark protection for that particular mark. It does not, as the Fourth Circuit erroneously holds, permit Sara Lee to use the mark offensively to prevent competitors from using the generic term "leg."

This holding is in direct conflict with the decisions of the Third Circuit in *Dranoff-Perlstein Ass'n v. Sklar*, 967 F.2d 852 (3d Cir. 1992), and the Second Circuit in *American Cyanamid Corp. v. Connaught Labs., Inc.*, 800 F.2d 306 (2d Cir. 1986). As these circuit courts have recognized, "any finding of infringement . . . must be based primarily on a likelihood of confusion between the [non-generic terms.]" *Sklar*, 967 F.2d at 861-62; *American*

Cyanamid Corp. v. Connaught Labs., Inc., 800 F.2d at 308 ("a trademark infringement finding thus cannot be based on the use of a generic or descriptive term").

The Fourth Circuit failed to address the non-generic portions of the marks in issue. Upon concluding that the mark L'eggs® was not generic, the Fourth Circuit proceeded to find facts on the existence of a likelihood of confusion, contrary to the factual findings of the district court, and ordered that an injunction be entered without further analysis. App. A- 24.

The Fourth Circuit's decision allows a trademark owner to prevent a competitor from using a generic term in naming its product. It does so based on a finding of likelihood of confusion emanating solely from a generic term. This is in conflict with the decisions of the Second and Third Circuits and presents a substantial question for review to be resolved by this Court.

II. The Fourth Circuit improperly limited the channels of distribution in which products bearing Kayser-Roth's incontestable trademark could be sold.

Kayser-Roth's LEG LOOKS® trademark is federally registered and incontestable, giving Kayser-Roth the right to use the mark in all channels of trade in which the goods for which it is registered may travel. The Fourth Circuit has improperly limited Kayser-Roth's rights to certain retail outlets in violation of its federal registration.

In support of the Fourth Circuit's decision, Sara Lee argues that Kayser-Roth's rights are subject to the exception to incontestability intended for geographically limited marks. *See* 3 McCarthy, *Trademarks and Unfair Competition* § 26.19 at 26-88 ("Thus, [through this exception] § 15 preserves, *in a limited area*, for a limited time frame, the common law rights of the senior user and

prevents those rights from being totally cut off by a junior user's incontestable registration.") (emphasis added).

It is Sara Lee's position -- although neither it nor the Patent and Trademark Office objected to Kayser-Roth's application for registration of LEG LOOKS® based on a likelihood of confusion with the L'eggs® mark and although Sara Lee did not challenge the mark or bring a petition to cancel it during its first five years of use -- that Kayser-Roth can never be certain of its rights to use its incontestable mark. According to Sara Lee, it could always challenge the use of LEG LOOKS® based on its preexisting state law rights. This position embodies a tortured interpretation of the Lanham Act statutory scheme and undermines the very purpose for incontestability, which is to quiet title in the ownership of a mark. *Park 'N Fly, Inc. v. Dollar Park and Fly, Inc.*, 469 U.S. 189, 198 (1985).

Sara Lee's attempt to avoid the consequences of its long delay in challenging Kayser-Roth's use of its LEG LOOKS® mark through misuse of an exception to the incontestability afforded to the mark should not be permitted.[1] Sara Lee is not entitled at this late date to constrict the use of LEG LOOKS® to certain retail outlets.

III. The Fourth Circuit failed to follow this Court's decision in *Anderson v. City of Bessemer City*, 470 U.S. 564 (1985), when reviewing the findings of fact of a district court sitting without a jury.

The Fourth Circuit undeniably engaged in independent fact-finding to reverse the decision of the

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[1] Sara Lee's assertion that Kayser-Roth has waived this issue for failure to raise it in the Fourth Circuit is specious. Kayser-Roth was the appellee in the court of appeals and, therefore, was not required to take issue with the lower court ruling in its favor.

district court. It did so in violation of this Court's teachings in *Anderson v. City of Bessemer City*, 470 U.S. 564 (1985).

In an effort to rescue the Fourth Circuit from its improper excursion into the province of the district court, Sara Lee argues that in stating its "definite and firm conviction that a mistake has been made," App. A-24, the Fourth Circuit applied the correct standard of review to the findings of the district court. Brief of Respondent, p. 10. To support this contention, Sara Lee relies on two post-*Anderson* decisions in which this Court stated that a "clearly erroneous" finding involves a "definite and firm conviction that a mistake has been made." *See Concrete Pipe and Products v. Construction Laborers Pension Trust*, 508 U.S. 602 (1993); *Sawyer v. Whitley*, 505 U.S. 333 (1992).

Sara Lee's reliance on these decisions is misplaced. Neither *Concrete Pipe and Products* nor *Sawyer* involved review by this Court of the standard to be applied to factual findings of a district court sitting without a jury. Rather, *Concrete Pipe and Products* involved the factual findings of a plan sponsor under ERISA, while *Sawyer* involved review in a capital case. These cases did not address the application of the principles set forth in *Anderson*.

Moreover, the Fourth Circuit's mechanical recitation of a "definite and firm conviction that a mistake has been made" does not and should not insulate the court from review. The phrase is not an incantation that, once chanted, grants free passage into the realm of appellate fact-finding.

> This [definite and firm conviction] standard plainly does not entitle the reviewing court to reverse the finding of the trier of fact simply because it is convinced that it would have decided the case differently.

* * *

> In applying the clearly erroneous standard to the findings of a district court sitting without a jury, appellate courts must constantly have in mind that their function is not to decide factual issues *de novo*.

Anderson, 470 U.S. at 573. If all that were required of an appellate court is to invoke its definite and firm conviction that a mistake had been made, *Anderson* would not have been decided. *Anderson* requires more.

> If the district court's account of the evidence is plausible in light of the record viewed in its entirety, *the court of appeals may not reverse it*.

Anderson, 470 U.S. at 573 (emphasis added). This is so, "even if convinced that . . . it would have weighed the evidence differently." *Id.* at 574.

The Fourth Circuit failed to follow the requirements of appellate review articulated by this Court in *Anderson*. Instead, it relied on its pre-*Anderson* conduct of reviewing, *de novo*, factual findings with which it disagrees. The repeated failure of the Fourth Circuit to avoid engaging in appellate fact-finding in the face of a contrary decision from this Court warrants the exercise of this Court's supervisory powers.

A. The district court did not find a likelihood of confusion between the mark L'eggs® and the mark LEG LOOKS®.

The Fourth Circuit supplanted the district court's findings concerning a likelihood of confusion. Sara Lee defends this conduct by challenging the Court to

> scan the opinion of the district court . . . for any *explicit* finding that there is no likelihood of confusion between the two competing marks.

Brief of Respondent, p. 10 (emphasis added).

Sara Lee's challenge ignores the procedural requirements of this case. It is Sara Lee, as plaintiff, not Kayser-Roth, who bears the burden of proving the existence of a likelihood of confusion. The proper inquiry, therefore, is not whether the district court made an "explicit finding" of no likelihood of confusion between the two marks, but whether the district court made an explicit finding of the existence of a likelihood of confusion.

The district court made no such finding. Instead, the district court found the evidence of purported confusion *"de minimis,"* A-138, "as a whole minimal," A-145, "too unreliable to serve as a basis for inferring likelihood of confusion," A-146, and "not demonstrative of actual confusion among consumers." A-140. The district court's finding that confusion emanating from the generic term "leg" was not actionable in any event does not vitiate its findings that any evidence of a likelihood of confusion was at best *de minimis,* and therefore insufficient to satisfy Sara Lee's burden of proof.

The Fourth Circuit does not suggest that the district court applied an incorrect legal standard in reaching its

decision. The Fourth Circuit, however, simply believed that the district court "miscalculated" the evidence on the likelihood of confusion. *Id.* at 10. It then engaged in appellate court fact-finding, independently applying the factors to be considered in determining a likelihood of confusion. *See* App. A-19-23. This was error.

B. The Fourth Circuit ignored factual findings of the district court in reversing the holding that Sara Lee was estopped by laches and acquiescence.

The district court concluded that Sara Lee's claims were barred by the doctrines of laches and acquiescence. To properly address these defenses, the district court necessarily addressed the factual issue of the relevant market in which the competing goods were sold. Based on its review of the evidence, the district court determined that there was only one market for pantyhose, "the national retail pantyhose market." App. A-109.

The Fourth Circuit reversed the district court's determination that Sara Lee's claims were barred by laches and acquiescence. In doing so, it inexplicably ignores the district court's finding of a national retail pantyhose market. Focusing instead solely on the food, drug, and mass merchandising ("FDM") market, the Fourth Circuit "adjudge[d] [Sara Lee's] actions to have been entirely reasonable." App. A-11.

Sara Lee seeks to justify the Fourth Circuit's factual finding by claiming the district court committed an error of law. It is Sara Lee's position that the defenses of laches and acquiescence must be based on a pre-existing "infringing" use in the FDM market.

The district court found the distinction urged by Sara Lee between the FDM channels of distribution and the

channels of distribution in which Kayser-Roth used the LEG LOOKS® mark prior to 1992 artificial. The pre-1992 LEG LOOKS® pantyhose and L'eggs® pantyhose were considered competitive products *per se*. App. A-104. As the district court noted,

> [i]f the confusion between the mark L'eggs® and the mark LEG LOOKS® were as automatic and dramatic as [Sara Lee] claims, common differences in the display, ambience, or cost of retail goods in department stores and FDM stores would have been no guarantee against it.

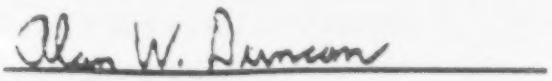
App. A-110-11. Thus, Sara Lee was entitled to bring an action from the moment the LEG LOOKS® trademark entered the marketplace, notwithstanding the differing channels of distribution alleged by Sara Lee. *Id.* at 104.

The Fourth Circuit's disregard of the factual findings on the relevant market was improper. Contrary to Sara Lee's contention, this disregard cannot be explained away as correcting errors of law of the district court.

CONCLUSION

For the reasons set forth in Kayser-Roth's Petition for Writ of Certiorari, and for the reasons set forth above, Kayser-Roth prays that this Court grant its Petition for Writ of Certiorari and reverse the judgment of the United States Court of Appeals for the Fourth Circuit.

This the 10th day of October, 1996.



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